

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name 26-7505 Gladwin City Housing Commission		County Gladwin
Audit Date June 30, 2004	Opinion Date October 21, 2004	Date Accountant Report Submitted to State: April 5, 2005		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

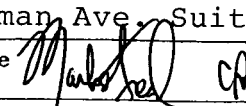
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Burnside & Lang, P.C.			
Street Address 5915 Eastman Ave, Suite 100		City Midland	State MI
Accountant Signature  CPA, CSEP		ZIP 48640	

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING**

**ANNUAL FINANCIAL STATEMENTS
AUDITORS' REPORT**

June 30, 2004 and 2003

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
GLADWIN, MICHIGAN**

Table of Contents

INDEPENDENT AUDITORS' REPORT	1 - 2
---	--------------

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Assets	3
Comparative Statement of Revenues, Expenses and Change in Net Assets	4
Comparative Statement of Cash Flows	5 - 6
Notes to Financial Statements	7 - 11

SUPPLEMENTARY INFORMATION

Combining Statement of Net Assets	12
Combining Statement of Revenues, Expenses and Change in Net Assets	13
Combining Statement of Cash Flows	14

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Report on Compliance and on Internal Control Over Financial Reporting Based On an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	15
--	----

Independent Auditors' Report

Members of the Board of Commissioners
Gladwin City Housing Commission
Gladwin, Michigan

We have audited the accompanying financial statements of the business type activities of the Gladwin City Housing Commission Public Housing, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the management of the Housing Commission. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

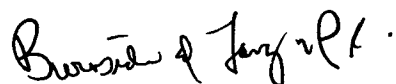
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Gladwin City Housing Commission Public Housing, as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2004 on our consideration of Gladwin City Housing Commission's Low-Income Housing Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The combining financial statements listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements of the Gladwin City Housing Commission Public Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Burnside & Lang, P.C.", written in dark ink.

Burnside & Lang, P.C.
October 21, 2004

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
COMPARATIVE STATEMENT OF NET ASSETS
For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 247,244	\$ 197,047
Tenant accounts receivable	(90)	198
Accounts receivable - HUD	3,000	21,412
Accounts receivable - Other	2,374	4,736
Inventory	2,467	1,875
Prepaid expenses	342	1,077
Total current assets	<u>255,337</u>	<u>226,345</u>
Noncurrent assets:		
Property and equipment, net	<u>829,609</u>	<u>823,607</u>
Total Assets	<u>1,084,946</u>	<u>1,049,952</u>
LIABILITIES		
Accounts payable	37,664	7,191
Accrued liabilities	10,641	7,762
Other liabilities	11,174	12,218
Tenant security deposits	15,011	15,543
Total liabilities	<u>74,490</u>	<u>42,714</u>
NET ASSETS		
Invested in capital assets	829,609	823,607
Unrestricted	180,847	183,631
Total net assets	<u>\$ 1,010,456</u>	<u>\$ 1,007,238</u>

The accompanying notes are an integral part of these financial statements.

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUE		
Net tenant rental revenue	\$ 162,325	\$ 172,573
Excess utilities	1,529	1,548
Tenant revenue - other	4,892	4,226
Total operating revenue	<u>168,746</u>	<u>178,347</u>
OPERATING EXPENSES		
Administration	89,875	73,801
Tenant services	12,590	10,196
Utilities	56,606	56,169
Ordinary maintenance and operation	82,606	80,693
General expenses	28,488	58,986
Extraordinary maintenance	2,590	7,860
Depreciation	68,173	65,700
Employee benefits	61,085	47,358
Total operating expenses	<u>402,013</u>	<u>400,763</u>
Operating income (loss)	<u>(233,267)</u>	<u>(222,416)</u>
NONOPERATING REVENUE (EXPENSES)		
HUD operating subsidy	92,058	97,372
HUD Capital Fund Program revenue	141,192	119,844
HUD Capital Fund Program expenses	-	(67,019)
Interest income	988	1,993
Other nonoperating revenue	2,247	4,529
Total nonoperating revenue (expenses)	<u>236,485</u>	<u>156,719</u>
Change in net assets	3,218	(65,697)
Total net assets - beginning	<u>1,007,238</u>	<u>1,072,935</u>
Total net assets - ending	<u><u>\$ 1,010,456</u></u>	<u><u>\$ 1,007,238</u></u>

The accompanying notes are an integral part of these financial statements.

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
COMPARATIVE STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Rental receipts	\$ 169,034	\$ 175,417
Administration	(59,402)	(68,738)
Tenant services	(12,590)	(10,196)
Utilities	(56,606)	(56,169)
Ordinary maintenance and operation	(82,463)	(88,553)
General expenses	(28,488)	(49,125)
Extraordinary maintenance	(2,590)	-
Employee benefits	(58,206)	(49,433)
Net cash provided (used) by operating activities	<u>(131,311)</u>	<u>(146,797)</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
HUD operating subsidy	92,058	97,372
Change in tennant security deposits	(532)	2,072
Other nonoperating revenue (expenses)	3,567	73
Net cash provided by noncapital financing activities	<u>95,093</u>	<u>99,517</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
HUD Capital Fund Program revenue	159,603	85,546
HUD Capital Fund Program purchases	(74,176)	(67,019)
Net cash provided (used) by capital and related financing activities	<u>85,427</u>	<u>18,527</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Interest and dividends	988	1,993
Net cash provided by investing activities	<u>988</u>	<u>1,993</u>
Net increase (decrease) in cash and cash equivalents	50,197	(26,760)
Cash and cash equivalents, beginning of the period	197,047	223,807
Cash and cash equivalents, end of the period	<u><u>\$ 247,244</u></u>	<u><u>\$ 197,047</u></u>

The accompanying notes are an integral part of these financial statements.

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
COMPARATIVE STATEMENT OF CASH FLOWS (CONTINUED)
For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (233,267)	\$ (222,416)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Depreciation expense	68,173	65,700
Decrease (increase) in operating assets		
Tenant accounts receivable	288	772
Inventory	(592)	(1,231)
Prepaid expenses	735	12,679
Increase (decrease) in operating liabilities		
Accounts payable	30,473	(4,525)
Accrued liabilities	2,879	2,224
Net cash provided (used) by operating activities	<u>\$ (131,311)</u>	<u>\$ (146,797)</u>

The accompanying notes are an integral part of these financial statements.

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

Entity

The Gladwin City Housing Commission Public Housing, herein after referred to as the "Housing Commission", is a component unit of the City of Gladwin, Michigan as defined by the Governmental Accounting Standards Board's (GASB) Statement No. 14, *The Financial Reporting Entity* and *Statement of Michigan Governmental Accounting and Auditing No. 5*, which define the reporting of primary government and component unit activities. The basic criterion for being considered a component unit is the exercise of financial responsibility over such a unit by a primary government, the appointment of the unit's governing board by a primary government, the designation of management by a primary government, or the ability to exert significant influence on the budget and operations of the unit by a primary government. As a result of being identified as a component unit, the Commission's financial records have been included as a discretely presented component unit in the general purpose financial statements of the City of Gladwin.

These financial statements include all activities of the Housing Commission, which includes an elderly housing program (50 units) and a family program (20 units). These programs receive subsidies and annual contributions from the Department of Housing and Urban Development ("HUD").

Basis of Presentation

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the general purpose financial statements. The funds of the Commission use the accrual basis of accounting, a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (revenues) and decreases (expenses) in total fund equity. In accordance with GASB Statement Number 20, the Commission's funds have applied all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989 unless FASB pronouncements conflict or contradict GASB pronouncements.

Prepaid Expenses

The Housing Commission follows the practice of recording as prepaid expense those payments that are for services that benefit periods subsequent to the financial statement date.

Encumbrances

Encumbrances for the recognition of commitments to unperformed contracts are not recorded.

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administration Expense

Expenses incurred by the Housing Commission for administration of the programs are allocated to the separate programs based on the HUD approved budget.

Compensated Absences

The Housing Commission records a liability for compensated absences for any employee vacation, sick time or other benefits which meet the requirements for recording of a liability.

Property and Equipment and Depreciation

Property and equipment are stated at cost. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 40 years.

Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property Tax Calendar

The Housing Commission receives no support from property tax collections. Therefore, no property tax calendar is presented.

Reclassification of Financial Statement Presentation

Certain reclassifications have been made to the June 30, 2003 financial statements to conform with the June 30, 2004 financial statement presentation. Such reclassifications have had no effect on the change in net assets as previously reported.

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003**

NOTE 2. CASH AND CASH EQUIVALENTS

Michigan Compiled Laws, Section 129.91, authorizes the Housing Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States Banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Housing Commission has designated one bank for the deposit of its funds. The investment policy adopted by the Housing Commission in accordance with Public Act 196 of 1997, has authorized investment in (a) bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; (b) certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution; (c) commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase; (d) repurchase agreements consisting of instruments listed in (a); (e) banker's acceptances of United States Banks; (f) obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than 1 standard rating service; (g) mutual funds registered under the investment company act of 1940, title 1 of chapter 686; (h) investment pools through an inter-local agreement under the urban cooperation act of 1967, PA 7; (i) investment pools organized under the surplus funds investment pool act of 1982, PA 367; (j) the investment pools organized under the local government investment pool act of 1985, PA 121. The Housing Commission's deposits and investments are in accordance with statutory authority.

At June 30, 2004 and 2003, the bank balances of the Housing Commission were \$253,754 and \$207,961, respectively; \$100,000 of these amounts were covered by federal depository insurance.

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003**

NOTE 3. LAND, STRUCTURES, AND EQUIPMENT

The following is a schedule of land, structures, and equipment as of June 30, 2004 and 2003:

	<u>6-30-2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>6-30-2004</u>
<u>Low Rent Program</u>				
Land	\$ 191,951	\$ -	\$ -	\$ 191,951
Site Improvements	132,836	-	-	132,836
Buildings	1,647,077	-	-	1,647,077
Building Improvements	242,663	-	-	242,663
Nondwelling structures	69,776	-	-	69,776
Dwelling equipment nonexpendable	102,297	74,176	-	176,473
Office furniture and equipment	53,456	-	-	53,456
Total	2,440,056	74,176	-	2,514,232
Less: Accumulated Depreciation	1,616,449	68,174	-	1,684,623
Net Book Value	<u>\$ 823,607</u>	<u>\$ 6,002</u>	<u>\$ -</u>	<u>\$ 829,609</u>

NOTE 4. RISK MANAGEMENT

The Housing Commission is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Housing Commission manages risk through the purchase of commercial insurance.

The Gladwin City Housing Commission is a member of the Housing Authority Risk Retention Group (HARRG) and the Housing Authority Property Insurance Group (HAPI). HARRG and HAPI are public entity risk pools. Public entity risk pools are cooperative groups of governmental entities joining together to finance an exposure, liability, or risk. Liability insurance is provided to the Housing Commission by HARRG and property insurance is provided by HAPI. More specifically, HARRG is classified as a risk sharing pool, which is an arrangement by which government's pool risks and funds and share in the cost of losses. HAPI is an insurance purchasing pool, which is an arrangement by which governments pool funds or resources to purchase commercial insurance products. HAPI buys property and casualty insurance from the Travelers Indemnity Company who reinsures the coverage with the American Reinsurance Company.

**GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2004 and 2003**

NOTE 4. RISK MANAGEMENT (Continued)

To be a part of HAPI and HARRG, the Housing Commission was required to make an initial surplus contribution. Premiums are then paid to the pools throughout the year to remain a member. Additional surplus contributions may be required by the pools in order to maintain adequate surplus to premium ratios for each member. HAPI and HARRG keep record of surplus accounts for each member. These accounts include initial and additional surplus contributions plus any dividends declared or paid to the member and any other adjustments for earnings and losses based upon a member's underwriting experience. Upon withdrawal, the Housing Commission would be entitled to receive total surplus contributions paid in over a five year period or to leave its surplus account with the pools and share in all allocations as if it were still a member.

NOTE 5. PENSION PLAN

The Gladwin City Housing Commission provides a retirement benefit for its employees. On January 1, 1989, the Gladwin City Housing Commission adopted the Gladwin City Housing Commission Deferred Compensation Plan and the Gladwin City Housing Commission Section 457 Plan to provide this benefit. On November 11, 2003 the Gladwin City Housing Commission adopted Resolution #03-7, which terminated these plans, and then adopted Resolution #03-8, establishing a defined benefit pension plan through the Municipal Employees' Retirement System of Michigan (MERS). Assets of the previous plans were transferred to the new plan. For the years ended June 30, 2004 and 2003, the Housing Commission paid pension costs totaling \$5,997 and \$6,823, respectively.

NOTE 6. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission's operations are concentrated in the multifamily real estate market. In addition, the Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of state or federal legislature or an administrative change by HUD. Such changes may occur with little or inadequate funding to pay for the related costs, including additional administrative burden, to comply with a change.

NOTE 7. FEDERAL GRANTS

The Housing Commission's expenditures under federal grant programs did not exceed \$500,000 for the year ended June 30, 2004; therefore, the Housing Commission was not subject to a Single Audit as required by OMB Circular A-133.

GLADWIN HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Public Housing Elderly Housing Program	Public Housing Capital Fund Program	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 247,244	\$ -	\$ 247,244
Tenant accounts receivable	(90)	-	(90)
Accounts receivable - HUD	3,000	-	3,000
Accounts receivable - Other	2,374	-	2,374
Inventory	2,467	-	2,467
Prepaid expenses	342	-	342
Total current assets	<u>255,337</u>	<u>-</u>	<u>255,337</u>
Noncurrent assets:			
Property and equipment, net	<u>829,609</u>	<u>-</u>	<u>829,609</u>
Total assets	<u>1,084,946</u>	<u>-</u>	<u>1,084,946</u>
LIABILITIES			
Accounts payable	37,664	-	37,664
Accrued liabilities	10,641	-	10,641
Other liabilities	11,174	-	11,174
Tenant security deposits	15,011	-	15,011
Total liabilities	<u>74,490</u>	<u>-</u>	<u>74,490</u>
NET ASSETS			
Invested in capital assets	829,609	-	829,609
Unrestricted	180,847	-	180,847
Total net assets	<u>\$ 1,010,456</u>	<u>\$ -</u>	<u>\$ 1,010,456</u>

GLADWIN HOUSING COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Public Housing Elderly Housing Program	Public Housing Capital Fund Program	Total
OPERATING REVENUE			
Net tenant rental revenue	\$ 162,325	\$ -	\$ 162,325
Excess utilities	1,529	-	1,529
Tenant revenue - other	4,892	-	4,892
Total operating revenue	<u>168,746</u>	<u>-</u>	<u>168,746</u>
OPERATING EXPENSES			
Administrative	89,875	-	89,875
Tenant services	12,590	-	12,590
Utilities	56,606	-	56,606
Ordinary maintenance and operation	82,606	-	82,606
General expenses	28,488	-	28,488
Extraordinary maintenance	2,590	-	2,590
Depreciation	68,173	-	68,173
Employee benefits	61,085	-	61,085
Total operating expenses	<u>402,013</u>	<u>-</u>	<u>402,013</u>
Operating income (loss)	<u>(233,267)</u>	<u>-</u>	<u>(233,267)</u>
NONOPERATING REVENUE (EXPENSES)			
HUD operating subsidy	92,058	-	92,058
HUD Capital Fund Program revenue	67,016	74,176	141,192
Interest income	988	-	988
Other nonoperating revenue	2,247	-	2,247
Total nonoperating revenue (expenses)	<u>162,309</u>	<u>74,176</u>	<u>236,485</u>
TRANSFERS			
Transfers in	74,176	-	74,176
Transfers out	-	(74,176)	(74,176)
Change in net assets	3,218	-	3,218
Total net assets - beginning	1,007,238	-	1,007,238
Total net assets - ending	<u>\$ 1,010,456</u>	<u>\$ -</u>	<u>\$ 1,010,456</u>

GLADWIN HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2004

	Public Housing Elderly Housing Program	Public Housing Capital Fund Program	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Rental receipts	\$ 169,034	\$ -	\$ 169,034
Administration	(59,402)	-	(59,402)
Tenant services	(12,590)	-	(12,590)
Utilities	(56,606)	-	(56,606)
Ordinary maintenance and operation	(82,463)	-	(82,463)
General expenses	(28,488)	-	(28,488)
Extraordinary maintenance	(2,590)	-	(2,590)
Employee benefits	(58,206)	-	(58,206)
Net cash provided (used) by operating activities	<u>(131,311)</u>	<u>-</u>	<u>(131,311)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
HUD operating subsidy	92,058	-	92,058
Change in tenant security deposit	(532)	-	(532)
Other nonoperating revenue (expenses)	3,567	-	3,567
Net cash provided by noncapital financing activities	<u>95,093</u>	<u>-</u>	<u>95,093</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
HUD Capital Fund Program revenue	85,427	74,176	159,603
HUD Capital Fund Program purchases	-	(74,176)	(74,176)
Net cash provided (used) by capital and related financing activities	<u>85,427</u>	<u>-</u>	<u>85,427</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	988	-	988
Net cash provided by investing activities	<u>988</u>	<u>-</u>	<u>988</u>
Net increase (decrease) in cash and cash equivalents	50,197	-	50,197
Cash and cash equivalents - beginning of the year	197,047	-	197,047
Cash and cash equivalents - end of the year	<u>\$ 247,244</u>	<u>-</u>	<u>\$ 247,244</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (233,267)	\$ -	\$ (233,267)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	68,173	-	68,173
Decrease (increase) in operating assets			
Tenant account receivable	288	-	288
Inventory	(592)	-	(592)
Prepaid expenses	735	-	735
Increase (decrease) in operating liabilities			
Accounts payable	30,473	-	30,473
Accrued liabilities	2,879	-	2,879
Net cash provided (used) by operating activities	<u>\$ (131,311)</u>	<u>\$ -</u>	<u>\$ (131,311)</u>

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

Members of the Board of Commissioners
Gladwin City Housing Commission
Gladwin, Michigan

We have audited the financial statements of Gladwin City Housing Commission Public Housing as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated October 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Public and Indian Housing Compliance Supplement for Audits of HUD Programs*.

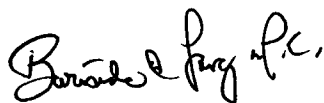
Compliance

As part of obtaining reasonable assurance about whether Gladwin City Housing Commission's Public Housing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Gladwin City Housing Commission's Public Housing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Commissioners, the Gladwin City Council and the Department of Housing and Urban Development and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Brandon A. Ferguson". The signature is written in a cursive, flowing style.

Midland, Michigan
October 21, 2004

October 21, 2004

Board of Commissioners
Gladwin City Housing Commission and
Public Housing
Gladwin, Michigan

Dear Commission Members:

In planning and performing our audit of the financial statements of the Gladwin City Housing Commission Public Housing (the "Public Housing"), for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls. Our consideration of internal controls would not necessarily disclose all matters in the internal control process that might be material weakness under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to relatively low level the risk that misstatements caused by errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

INTERNAL CONTROL

Financial Oversight

The general limitations in any smaller organization like Public Housing requires that Commission members continue to remain involved in the financial affairs of Public Housing through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, Commissioners perform these duties and our comment here is intended to emphasize the importance of its oversight.

OTHER MATTERS

Revenue and Expenditure Projections

During our audit we noted that Public Housing management does not make projections of revenues and expenditures beyond the one year budget cycle. We recommend this analysis be made part of the budgeting process and estimate revenue and expenditures for three to five years beyond the current budget cycle. Following this recommendation will highlight potential financial difficulties and allow Commissioners time to evaluate the effect on Public Housing's services.

Gladwin City Housing Commission
Public Housing
October 21, 2004
Page 2

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the June 30, 2004, financial statements, and this report does not affect our report on those financial statements dated, October 21, 2004. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Gladwin City Housing Commission, management, state and federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

BURNSIDE & LANG, P.C.